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Renters Hit Breaking Point in a Sudden Reversal for Landlords

Affordability pressures and inflation are holding back tenants, forcing landlords to ease off big increases.

Can US Economy Withstand Housing Downturn?: Markets Live

By Prashant Gopal and Paulina Cachero
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After a record surge in housing costs and ballooning expenses for everything from food to energy, America's renters have had enough.

Rent gains are finally starting to slow in many parts of the US, cooling a years-long boom that sapped affordability from coast to coast. Landlords have little choice but to ease off big increases: Demand from tenants is suddenly sinking.

It's a dramatic reversal from just months ago, when people were fighting over a limited supply of apartments, getting on waiting lists or paying multiple application fees to land one home. Now, particularly in pandemic boom markets such as Las Vegas and Phoenix, the application piles have thinned out and listings are lingering longer. Measures of US household formation have turned negative.

Young people who otherwise might be striking out on their own are instead staying with the parents or, like 18-year-old Coleby Hillenbrand, cramming into apartments with multiple roommates.

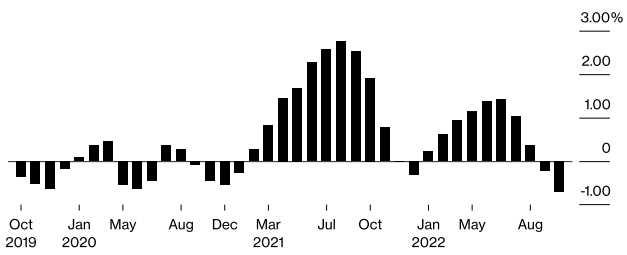
"I was able to round people up and make rent affordable," said Hillenbrand, who lives with his girlfriend and another couple in a tiny two-bedroom outside of Kansas City. "People our age aren't making enough money to afford rent on their own."

In a US housing affordability crisis that's only worsening as mortgage rates rise for homebuyers, any sign of a rental cool-off is welcome news. Yet it's also the product of economic turmoil as people struggle with soaring costs of goods and services and wages that aren't keeping up. With a recession looming, the safe move is to stay put. For the Federal Reserve, aggressively raising interest rates to curb inflation, an easing of one of its key measures would be a positive sign.

"Rents have had a historic run-up, way beyond what fundamentals would justify," said Susan Wachter, a real estate professor at the University of Pennsylvania's Wharton School. "The Fed will not ease up until inflation abates, which requires rents to slow, the sooner the better and the harder the better, for quick relief."

Rents nationally increased 7.5% in September from a year earlier, above pre-pandemic levels, but down from a peak jump of nearly 18% at the start of the year, when vacancies also were lower, according to Apartment List. Preliminary October data show a dropoff that's faster than the typical seasonal decline and would be the steepest in month-over-month data dating back to 2017, said Igor Popov, the listing platform's chief economist.

Falling Off
US rents are now declining on a month-over-month basis



Source: Apartment List
Note: October 2022 number is preliminary and is likely to be revised as more data are collected

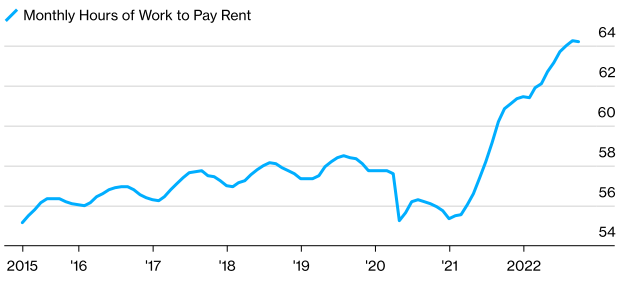
A cooldown has yet to show up in the consumer price index that's closely watched by the Fed, about a third of which is tied to the cost of shelter. That measure of rents rose at a record annual pace last month. But it will be slow to reflect more recent shifts because the index tracks what renters are paying as well as the costs homeowners would incur if they had to rent back their homes – rather than new leases that are more apt to change.

These indicators lag the actual market. It might be six or nine months before the more recent slowdown is reflected in the CPI, said Mark Zandi, chief economist for Moody's Analytics.

But renters are feeling the strain of inflation now. Unlike homeowners who can fix mortgages for 30 years, they can face rent increases every year, or sooner if they're on a month-to-month lease. And they're more likely to have less stable jobs and incomes.

The average American would have had to put in more than 64 hours of work in September to pay the typical monthly rent, according to an analysis by Zillow. That's just a hair below the August level, which was the highest in data going back to 2015.

Work to Live
The hours of work needed to afford the typical US rent has hit a record



Source: Zillow
Note: Analysis based on average hourly earnings and Zillow's Rent Index

"Rent became unaffordable for people in lots of markets," said Jeff Tucker, a senior economist at Zillow. "We shouldn't be surprised that fewer people will go out and sign a lease. Throw on other inflationary challenges and that's going to shrink rental demand."

Demand is slowing the most in metropolitan areas such as Phoenix, Atlanta and Las Vegas, where rent growth was especially dramatic in recent years, said Jay Parsons, chief economist for RealPage, a rental-data tracker.

Household formation is freezing up, sending apartment demand negative for the first time for any third quarter in at least 30 years, according to RealPage data dating back to 1992. Tenants are leaving rentals at normal rates. The problem for landlords is that a lot fewer are moving in, Parsons said.

On her 25th birthday in July, Rachel McIntyre Smith, a multimedia coordinator in Chattanooga, Tennessee, moved back in with her parents. She loved the freedom of living alone until her landlord jacked up the monthly rent on her $1,100 one-bedroom by another $200, swallowing half her salary with utilities factored in.

"The last few months I was constantly thinking about how I was going to shrink my grocery bill or gas budget," Smith said. "Now I can sleep better."

The slump in the for-sale market would seemingly help landlords because sidelined homebuyers would need to live somewhere. But rents have shot up so high that many are instead looking for cheaper alternatives, like living with family, according to Apartment List's Popov. And frustrated homesellers are listing houses for rent instead, increasing supply.

Lagging Behind
Ranking of the metros with the slowest September rent growth

Metro areas	September rent growth, year-over-year
Sacramento, CA	1%
Las Vegas	2
Phoenix	3
Minneapolis	3
Virginia Beach, VA	3
Baltimore	3
San Francisco	3
Detroit	3
Riverside, CA	3
Jacksonville, FL	4

Source: Apartment List

The slowdown is widespread, with rents falling month-over-month in September in 69 of the top 100 US cities. But it varies widely by geography, and many markets are still quite heated. Rents in the New York, San Diego, Miami and Orlando, Florida, areas, all jumped by at least 12% last month from a year earlier, according to Apartment List data, still gangbusters relative to pre-Covid levels.

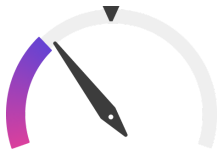
It's normal for rents to dip in the months leading into the winter holidays. But if demand doesn't return by next spring, problems for landlords will worsen, Popov said. There's a near-record amount of newly-built apartments under construction and heading for completion, adding to the rental inventory.

"The question is where is the economy in March, April, May, when people are normally out looking for apartments?" Popov said.

Cynthia Woodward says she's juggling more vacant homes than any time in her 11 years as a Las Vegas property manager. Normally, out of the 130 homes she manages, a few will be empty. But now she's got a dozen, including one that was broken into in the dark of night, the thieves leaving with a new washer, dryer and refrigerator.

"Lately activity is ice cold," Woodward said. "Where are the people?"

– With assistance by Vince Golle



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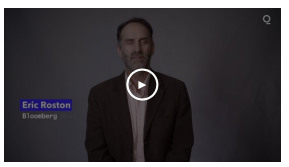

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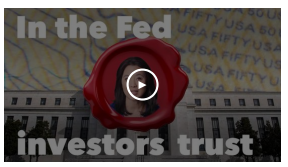

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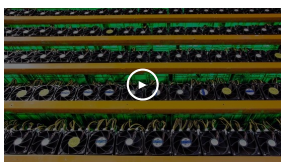

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